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INFO RUEHZM/GULF COOPERATION IMMEDIATE  
RUEHDE/AMCONSUL DUBAI  
RUEHAM/AMEMBASSY AMMAN IMMEDIATE 6220  
RUEHLB/AMEMBASSY BEIRUT IMMEDIATE 4401  
RUEHEG/AMEMBASSY CAIRO IMMEDIATE 3118  
RUEHLO/AMEMBASSY LONDON IMMEDIATE 2885  
RUEHMO/AMEMBASSY MOSCOW IMMEDIATE 0483  
RUEHNY/AMEMBASSY OSLO IMMEDIATE 1162  
RUEHOT/AMEMBASSY OTTAWA IMMEDIATE 0323  
RUEHKO/AMEMBASSY TOKYO IMMEDIATE 0641  
RUEHTU/AMEMBASSY TUNIS IMMEDIATE 5880  
RUEHVI/AMEMBASSY VIENNA IMMEDIATE 0051  
RUCNDT/USMISSION USUN NEW YORK IMMEDIATE 1196  
RUEHBS/USEU BRUSSELS IMMEDIATE  
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE  
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C O N F I D E N T I A L SECTION 01 OF 03 JERUSALEM 000563

SIPDIS

SIPDIS

NEA FOR FRONT OFFICE; NEA/IPA FOR WILLIAMS/WATERS/LOGERFO;  
TREASURY FOR NUGENT/ADKINS

E.O. 12958: DECL: 02/06/2016

TAGS: FFIN KBIO KWBG IS

SUBJECT: PALESTINIAN AUTHORITY WILL DISBURSE SALARIES,  
STILL SEEKING FUNDS FOR FUEL, EMERGENCY HEALTH AND  
EDUCATION EXPENDITURES, AND UNEMPLOYMENT AND SOCIAL  
TRANSFERS

Classified By: Consul General Jake Walles for reasons 1.4 (b) and (d).

¶1. (C) Summary and comment: Palestinian Authority (PA) Deputy Finance Minister Jihad al-Wazir confirmed February 7 that he will disburse salaries February 8 since he has managed to cobble together almost USD 113 million. He does not yet have enough to cover unemployment, retirement, or social benefits, totaling at least USD 3 million. He also needs another USD 72 million for fuel supplies and emergency payments of arrears to health and education sector suppliers.

He confirmed that he had not received any transfers from Gulf states but expected a letter February 8 from Qatar confirming its imminent transfer. Given the uncertainty to date over the delayed payment of January PA salaries, the local press are reporting reduced domestic consumption and that some Palestinians are starting to exchange foreign currency savings into Israeli shekels. Without additional external financing, the PA will soon reach the point where it cannot pay salaries or cover its outstanding bills. At that point, conditions could rapidly deteriorate and a humanitarian crisis could ensue. End summary.

PA will pay January salaries

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¶2. (C) Palestinian Authority (PA) Deputy Finance Minister Jihad al-Wazir confirmed February 7 that the USD 54 million in clearance revenue transferred by the Israeli government was in the PA's single treasury account. Al-Wazir also confirmed that the PA had received a USD 25 million loan from Jordan Investment Bank, that is collateralized against Palestine Investment Fund (PIF) assets. Al-Wazir also described a number of smaller credit lines (bridge loans) and revenue collections that will enable him to disburse January PA salaries, totaling USD 113 million, on February 8. Al-Wazir managed to cobble together USD 106.33 million for the salary payments with the following funding:

-- USD 54 million from clearance revenue that the Israeli government transferred;  
-- USD 25 million loan from Jordan Investment Bank collateralized against PIF assets;  
-- USD 9.78 million income tax payment from Arab Bank;  
-- USD 2.8 million extension of credit from Palestine Investment Bank, against future domestic revenues;  
-- USD 2.8 million extension of credit from Jordan Bank, against future domestic revenues;  
-- USD 1.52 million extension of credit from Cairo-Amman Bank, against future domestic revenues;  
-- USD 3.26 million in property taxes collected that will not be transferred to municipalities;  
-- USD 7.17 million in past excess payments for security retirement benefits;

Al-Wazir said he was waiting for a USD 3.26 million advance on VAT owed by PalTel and was asking Arab Bank for a credit line of USD 3.41 million against the future Qatari transfer.

PA still needs funding for unemployment and other benefits

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¶3. (C) Al-Wazir stressed that he did not yet have enough funds to pay unemployment benefits to roughly 13,000 "former" militants and other beneficiaries or retirement and social benefits (totaling at least USD 4 million). He noted that he had asked for additional security on the Finance Ministry offices in Ramallah and Gaza because he assumes those groups may try to attack the Finance Ministry when they realize their benefits are not in their accounts. He would like to be able to make those transfers next week. Al-Wazir added

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that President Abbas plans to hold a press conference February 8 announcing the formation of a committee to review all appointments to the security and civil services since mid-2005.

Still seeking funding for fuel and emergency arrears

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¶4. (C) In addition to still needing funds to pay unemployment, retirement, and other social benefits, al-Wazir said there was another fuel payment due to the Israeli fuel provider Dor on February 10 for roughly NIS 100 million (USD 21.74 million). He also needs to pay at least NIS 230 million (USD 50 million) in emergency arrears to health and education sector suppliers, including pharmaceutical suppliers. Those arrears are in addition to NIS 400 million (USD 87 million) in non-emergency arrears due to other PA suppliers. Al-Wazir described the outstanding total of commercial bank loans at USD 600-700 million. He joked that he may have been able to delay the financial collapse of the PA this week but it was likely at the expense of certain local commercial banks who are now even more likely to face balance sheet problems.

Nothing to date from Gulf; not even a letter

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¶5. (C) Al-Wazir confirmed that he still did not have letters in hand from the Qatari or Saudi governments promising transfers of budget support. However, the PA had heard from the Minister of State in the Qatari Foreign Ministry that such a letter would be sent February 8. Al-Wazir noted that the PA had heard nothing from Riyadh and he is worried that they were playing political games.

¶6. (C) The office of the Quartet Special Envoy relayed that Quartet Special Envoy James Wolfensohn called Saudi Finance Minister Assaf February 7, following up on an earlier phone

call, and urged the Saudis to transfer the promised USD 20 million to the PA. Minister Assaf replied to Wolfensohn that he had spoken with both the King and the Saudi Foreign Minister and was told that the Palestinians should not expect USD 20 million from the Saudis.

Effect to date of non-payment  
of salaries

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**¶7.** (SBU) PA employees and their families are already bearing the consequences of the delayed payment of January PA salaries, according to ConGen contacts and local press reports. Commercial banks in some areas are allowing customers overdraft privileges, in some instances capped at the amount of the expected salary check. Money changers have reported a steep increase in the number of people changing U.S. dollars and Jordanian dinars into Israeli shekels, an indication that Palestinians are drawing on their savings to meet daily living expenses. A Gaza laborer interviewed in local Arabic language daily Al-Hayat Al-Jadida noted that a single PA salary is often the sole means of supporting a large, extended family. In the same article, merchants in the West Bank and Gaza reported a steep drop in sales due to the shortage of income. A Gaza merchant stated that, with the dramatic decline in the number of workers allowed into Israel in recent years, the importance of PA salaries to the livelihood of Palestinians and the economy as a whole had become increasingly important. Given the threat of an end to international assistance due to Hamas, January 25 election victory, many PA employees are worried that delayed payments

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will be the norm, according to press reports.

Comment

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**¶8.** (C) Al-Wazir has bought the PA a few more days or weeks, but the current caretaker government is still very much living financially day-to-day or as a World Bank official said February 7, "in liquidity crisis mode." While it appears to have managed to pay salaries only a week late, the other looming payments, whether fuel or unemployment benefits, could cause it still to sink this month. External funding is still a critical need.

**¶9.** (C) Without additional external financing, the PA will soon reach the point where it cannot pay its salaries or cover its outstanding bills. This could happen while the current caretaker government remains in office, or immediately after a new, presumably Hamas-led government takes over. Either way, the lack of liquidity in the economy will have an immediate impact on living conditions. Conditions could deteriorate rapidly, possibly resulting in a breakdown in law and order and a humanitarian crisis. End comment.

WALLES